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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

TOM FORESE - Chairman
BOB BURNS
ANDY TOBIN
BOYD DUNN
JUSTIN OLSON

JAN 11 2019

DOCKETED BY

DOCKET NO. S-21062A-18-0365

In the matter of

DECISION NO. 77024

LPL FINANCIAL LLC, (CRD# 6413)

ORDER TO CEASE AND DESIST,
ORDER FOR ADMINISTRATIVE
PENALTIES AND CONSENT TO SAME

Respondent.

BY: LPL FINANCIAL LLC

WHEREAS, LPL Financial LLC ("LPL"), is a broker-dealer with a principal place of business at 75 State Street, 22nd Floor, Boston, MA 02109, that is registered in the State of Arizona; and

WHEREAS, a coordinated investigation into LPL's failure to establish and maintain reasonable policies and procedures to prevent the sale of unregistered, non-exempt securities by LPL to its customers, including LPL's retention, use, and subsequent cancellation of certain third-party services integral to LPL's compliance with state securities registration requirements (a/k/a "Blue Sky" laws); and certain other deficiencies within LPL's compliance structure related to LPL's controls, monitoring and reporting tools, and escalation protocols in relation to LPL's response to significant compliance issues resulting from such failure during the period of approximately October 1, 2006 through May 1, 2018 (the "Investigation") has been conducted by a multistate task force, coordinated among members of the North American Securities Administrators Association ("NASAA"), with Massachusetts and Alabama serving as the "Lead States"; and

WHEREAS, LPL has agreed to resolve the Investigation, upon the terms specified in the Settlement Term Sheet executed May 1, 2018 between LPL and the Lead States on behalf of participating NASAA jurisdictions, with all participating states and territories identified in Appendix

1 A to the Settlement Term Sheet (each, a "Jurisdiction" and collectively, the "Jurisdictions"); and

2 WHEREAS, LPL agrees to comply in all material respects with the undertakings specified
3 herein; and

4 WHEREAS, LPL elects to permanently waive any right to a hearing and appeal under Articles
5 11 and 12 of the Securities Act of Arizona, A.R.S. § 44-1801 *et seq.* ("Securities Act") with respect to
6 this Order To Cease And Desist, Order for Administrative Penalties, and Consent to Same ("Order").

7 NOW, THEREFORE, the Arizona Corporation Commission ("Commission"), as
8 administrator of the Securities Act, hereby enters this Order:

9 1. LPL admits the jurisdiction of the Commission, neither admits nor denies the Findings
10 of Fact and Conclusions of Law contained in this Order, and consents to the entry of this Order by the
11 Commission.

12 I.

13 FINDINGS OF FACT

14 A. BACKGROUND, CONTRACT WITH BSDC

15 2. Every broker-dealer is required to have a supervisory system that is reasonably
16 designed to ensure that the broker-dealer complies with all state and federal laws, rules and regulations,
17 including laws that prohibit the offer or sale of unregistered, non-exempt securities. Securities issued
18 by companies listed on major national exchanges (*e.g.*, NYSE, AMEX, NASDAQ) and securities
19 issued by registered investment companies (*e.g.*, mutual funds) are in most instances exempt from the
20 Blue Sky requirements at issue here.

21 3. A reasonably designed system at a minimum includes written policies and procedures
22 governing the offer and sale of securities by registered persons, training for all associated persons, and
23 supervisory procedures and designated supervisors responsible for ensuring compliance.

24 4. In January 2000, LPL entered into an agreement with Blue Sky Data Corporation
25 ("BSDC"), by which BSDC was obligated to supply LPL with data for LPL's use in compliance and
26 supervisory efforts related to Blue Sky laws, rules, and regulations (the "Subscription Agreement").
27 The Subscription Agreement was amended in 2006.

28

1 5. As executed in January 2000 and amended in mid-2006, the Subscription Agreement
2 included data for equity securities, but not for fixed income securities.

3 6. From at least January 2000 forward, the Subscription Agreement provided for a data
4 feed that, if properly utilized, would allow for the review of trades to ensure that equity securities were
5 properly registered in the customer's state. The subscription also provided online access for authorized
6 personnel to query a specific CUSIP to determine its registration status in each U.S. state and territory.
7 As described in more detail below, although the contract would enable such review, LPL failed to
8 ensure during the relevant period that the data was comprehensively utilized and that its systems were
9 properly configured to effectively make use of the data.

10 B. BLUE SKY COMPLIANCE EFFORTS

11 7. LPL has represented that for a number of years, through at least October 2006, LPL's
12 Surveillance Department conducted a manual review of certain solicited equities trades to confirm
13 Blue Sky compliance. This involved the use of various reports and reference to registration and
14 exemption data from BSDC, as a result of the state securities registration subscription described above,
15 and resulted in LPL identifying certain violations and taking certain remedial actions.

16 8. At some point after October 2006 the manual Blue Sky Review process described
17 above lapsed. Records reflect that LPL thereafter failed to meet Blue Sky compliance obligations and
18 failed to address registration and exemption requirements in the states.

19 9. Records reflect that in 2006, LPL supplemented its subscription with BSDC to, among
20 other things, include automated checks (a/k/a "edits") to review orders against data from BSDC.
21 Records reflect that the Subscription Agreement was amended based on an assumption by certain LPL
22 personnel that, with this supplemental data feed feature, a front-end order entry block (*i.e.*, an
23 automated mechanism that would prevent the execution of trades of unregistered, non-exempt
24 securities) could be implemented with a fair degree of ease.

25 10. Lacking necessary training, supervision and process implementation of various order
26 entry systems, including the role of both proprietary systems and vended, third-party systems, LPL
27 personnel failed to accomplish the additional steps that would be required to implement a front-end
28 order entry hard block. While it appears from LPL records that the implementation difficulties were

1 recognized by certain personnel and some efforts to resolve the technological obstacles were
2 undertaken over a period of time, these efforts were not successful as the efforts were not given the
3 appropriate stature within LPL, necessary training, or appropriate and adequate supervision.

4 11. As reflected in various records, poor intradepartmental and interdepartmental
5 communications and a lack of integrated supervision and governance over vendor agreements, order
6 entry systems controls, and Blue Sky compliance contributed to the failure of certain personnel in both
7 Trading and Compliance to recognize at various points in time that Blue Sky hard blocks had not been
8 implemented into LPL's order entry systems.

9 12. Records reflect that, during the relevant period, other personnel appeared to place
10 reliance on other surveillance reviews that were designed for purposes of complying with certain LPL
11 internal policies (for example, surveillance reviews pertaining to compliance with LPL's internal
12 prohibition of solicited trades of low-priced and certain unlisted securities) as a means of capturing
13 Blue Sky violations. LPL failed to ensure there was a review specifically designed to address state
14 securities registration requirements.

15 13. The groups and functions that are required for ensuring Blue Sky compliance were not
16 integrated and were fragmented across the organization, particularly in a period during which LPL
17 was experiencing significant growth. Moreover, LPL lacked and failed to provide institutional Blue
18 Sky expertise or experience in the form of an individual or individuals with particularized knowledge
19 of industry-wide standards, policies, procedures and processes. This resulted in a failure by LPL to
20 comprehensively address Blue Sky compliance needs and to develop and fund what should have been
21 a centralized set of Blue Sky compliance controls.

22 C. CANCELLATION AND REINSTATEMENT OF BSDC DATA FEED

23 14. In or around January 2014, LPL's Procurement Department ("Procurement")
24 undertook a review of various vendor contracts. Procurement identified the Subscription Agreement,
25 at a cost of \$31,200 per year, and inquired whether LPL had a need for the service and who within
26 LPL used the subscription. The purpose of this inquiry was to determine whether Procurement could
27 cancel or not renew the BSDC subscription.
28

1 15. Procurement was directed to LPL's Governance, Risk & Compliance Department
2 ("Compliance"), specifically a vice president in Compliance ("VP Compliance").

3 16. Without adequate controls in place to ensure that the inquiry was conducted properly,
4 VP Compliance and an assistant vice president in Compliance sent a series of separate emails to
5 various personnel within LPL's Registrations, Trading, Compliance, and Operations departments to
6 determine whether LPL had a continued need for the BSDC subscription or whether the contract could
7 be cancelled.

8 17. None of the personnel consulted indicated that the BSDC subscription was critical to
9 compliance with Blue Sky state registration requirements.

10 18. Following these inquiries, in February 2014, VP Compliance wrote to Procurement that
11 it was "ok to discontinue" LPL's subscription to the Subscription Agreement.

12 19. In March 2014, Procurement provided written notice to BSDC to terminate the
13 Subscription Agreement and LPL paid the final April 2014 invoice.

14 20. Email records reflect that on October 23, 2014, a trader on LPL's Equity Trading desk
15 ("Equity Trading") reviewed a screen that contained information showing a particular security to be
16 restricted as a result of not being registered for sale or exempt from registration in the particular
17 jurisdiction (which information appears to have been populated to the system before the BSDC
18 contract was terminated). The trader shared the screen with a Manager in Equity Trading who in turn
19 contacted BSDC in an effort to determine whether the particular restriction was valid. Through this
20 outreach to BSDC, that Manager learned that LPL's subscription to the state securities registration
21 data had been cancelled months earlier.

22 21. On October 24, 2014, Equity Trading requested by email that the subscription be
23 immediately reinstated. In that email, Equity Trading explained that it relied on the data to determine
24 if over-the-counter securities are Blue Sky-compliant in the U.S. and territories, stating: "[w]e would
25 like to request to have this subscription renewed as quickly as possible as this is a critical part of our
26 day to day business."

27 22. In December 2014, LPL and BSDC reinstated the Subscription Agreement and in
28 February 2015, LPL was again receiving up-to-date data into its equity trading system from BSDC.

23. Both before and after the contract cancellation, alerts relating to potential Blue Sky registration violations for equity securities were visible only to the trading desk and not to financial advisors who placed trades directly and, as noted above, notwithstanding that LPL had access to BSDC data for equity securities, LPL's systems did not operate to prevent a trade that was not Blue Sky-compliant (*i.e.*, a front-end block).

24. While the reinstated Subscription Agreement obligated BSDC to provide LPL with data for both equity and fixed income securities, at no point prior to December 2014 did the Subscription Agreement include data for fixed income securities.

D. POST-REINSTATEMENT REVIEW AND REMEDIAL MEASURES

25. Following the reinstatement of the BSDC contract, LPL conducted a review of certain equities and fixed income trades and identified certain Blue Sky violations requiring remediation. LPL attempted repurchase or damages offers to affected investors identified through this limited review. In connection with the making of these offers, LPL contacted securities regulators in certain jurisdictions about the offers.

26. As reflected in various records, poor intradepartmental and interdepartmental communications and a lack of integrated supervision and governance resulted in LPL's failure at that time to conduct a sufficient analysis to determine the root cause of the identified violations and compliance and supervisory shortcomings.

27. LPL has represented that following the reestablishment of the BSDC contract, LPL implemented several Blue Sky controls.

28. LPL has engaged several consultants to conduct a comprehensive review of its current Blue Sky compliance program and to assist LPL with implementation of recommendations, which is ongoing.

29. LPL has represented that it has designed and began implementing Blue Sky training for Compliance, Trading, Operations and Legal personnel and hired a senior-level Blue Sky compliance expert as a full-time employee, who has responsibilities for establishing and implementing the enhanced Blue Sky compliance program as guided by the independent consultants.

II.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction over this matter pursuant to Article XV of the Arizona Constitution and the Securities Act.

2. LPL offered or sold securities within or from Arizona, within the meaning of A.R.S. 18 §§ 44-1801(16), 44-1801(22) and 44-1801(27).

3. LPL violated A.R.S. § 44-1841 by offering or selling securities that were neither registered nor exempt from registration.

4. LPL failed to reasonably supervise its salesmen within the meaning of A.R.S. § 44-1961(A)(12) because:

- a. LPL failed to invest sufficient and appropriate resources in personnel, expertise, systems, and operations to adequately comply with Blue Sky laws, rules, and regulations;
- b. LPL failed to reasonably supervise the flow of information to ensure full and proper compliance with state securities registration requirements;
- c. LPL failed to maintain adequate systems to reasonably supervise agents, staff, and employees to prevent the sale of unregistered, non-exempt securities;
- d. LPL failed to supervise agents, staff, and employees in the performance of duties with respect to systems operation, process, and checks and balances to ensure compliance with Blue Sky laws, rules, and regulations;
- e. LPL acted negligently in canceling certain third-party services critical for compliance with Blue Sky laws, rules, and regulations; and
- f. LPL failed to conduct appropriate and necessary due diligence regarding the retention, use, and subsequent cancellation of certain

1 third-party services critical for compliance with Blue Sky laws, rules,
2 and regulations.

3 5. LPL failed to maintain books and records necessary to ensure full and proper
4 compliance with Blue Sky laws, rules, and regulations pursuant to A.A.C. R14-4-132.

5 6. LPL's conduct is grounds for administrative penalties under A.R.S. §§ 44-2036.

6 7. The Commission finds the following relief appropriate and in the public interest.

7 **III.**

8 **ORDER**

9 THEREFORE, on the basis of the Findings of Fact, Conclusions of Law, and LPL's consent
10 of this Order, attached and incorporated by reference, the Commission finds that the following relief
11 is appropriate, in the public interest, and necessary for the protection of investors: IT IS HEREBY
12 ORDERED:

13 1. This Order concludes the Investigation and any other action that the Commission could
14 commence under applicable Arizona law on behalf of Arizona as it relates to the substance of the
15 Findings of Fact and Conclusions of Law herein, provided however, that excluded from and not
16 covered by this paragraph 1 are any claims by the Commission arising from or relating to LPL's failure
17 to comply with the undertakings contained herein.

18 2. This Order is entered into solely for the purpose of resolving the referenced multistate
19 investigation, and is not intended to be used for any other purpose.

20 3. Pursuant to A.R.S. § 44-2032(1), that LPL, and any of LPL's agents, employees,
21 successors and assigns, shall permanently cease and desist from violating A.R.S. §§ 44-1841 and 44-
22 1961(A)(12) and A.A.C. R14-4-132.

23 A. PENALTY

24 4. Pursuant to A.R.S. §§ 44-2036, LPL Financial Holdings Inc., or its direct or indirect
25 subsidiaries, shall pay an administrative penalty in the amount of \$499,000.00. Payment is due in full
26 on the date of this Order. The check shall be made payable to the "State of Arizona." Any amount
27 outstanding shall accrue interest as allowed by law.

1 B. CUSTOMER REMEDIATION

2 5. No later than thirty (30) days from the entry date of this Order, LPL shall commence a
3 comprehensive review of all customer transactions effected in Arizona to assess compliance with all
4 applicable state securities registration requirements ("Historical Trade Review").

5 6. The Historical Trade Review shall include all executed, solicited purchase orders of
6 equity and fixed income securities effected in Arizona between October 1, 2006 (insofar as LPL and/or
7 any third party, vendor, supplier or service has necessary records) and May 1, 2018 (the "Historical
8 Trade Review Period"), as well as all executed, unsolicited purchase orders of equity and fixed income
9 securities effected in Arizona during the portion of the Historical Trade Review Period for which
10 Arizona did not have an exemption from registration for unsolicited transactions.

11 7. For the purposes of the Historical Trade Review, a transaction shall be deemed to have
12 been effected in Arizona if the customer's address of record (or the address of record for the beneficial
13 owner of any account, as applicable) at the time of the transaction was within Arizona.

14 8. The Historical Trade Review shall be conducted by an unaffiliated third party that is
15 not unacceptable to the Lead States (the "Independent Reviewer"). The Independent Reviewer shall
16 not be a person or entity who has provided LPL with any products or services related to Blue Sky
17 compliance prior to July 1, 2017.

18 a. In conducting the Historical Trade Review, the Independent Reviewer
19 may rely on historical research, data, and other services provided by a
20 third-party service provider other than the Independent Reviewer. The
21 Independent Reviewer may further rely on any determination by such
22 a third-party service provider that a particular trade complied with
23 state registration requirements.

24 b. Upon request, LPL shall provide the Commission with copies of all
25 final contracts and directives related to the engagement of the
26 Independent Reviewer and any other third-party service provider
27 involved in the Historical Trade Review and the related remediation.
28

LPL shall promptly respond to any additional requests for information by the Commission relating to such engagement.

- c. LPL shall neither be in nor have an attorney-client relationship with the Independent Reviewer, and shall not seek to invoke the attorney-client privilege or any other doctrine or privilege to prevent the Independent Reviewer from transmitting any information, reports, or documents as set forth in this Order to the Commission or to LPL's Board of Directors.
- d. LPL may request confidential treatment be afforded to any material provided by LPL and/or the Independent Reviewer to the Commission.
- e. LPL shall not have the authority to terminate the Independent Reviewer or any third-party service provider engaged in connection with the Historical Trade Review and related remediation, without prior written approval from the Lead States.

9. LPL shall offer to repurchase the securities where the securities are still held in an LPL Account (subject to a standardized repurchase formula) or to pay damages where the position has been sold (subject to a standardized damages formula) for each trade involving an unregistered, non-exempt equity or fixed income security. Each offer shall include interest at a rate of three (3) percent simple interest per annum. Interest shall be calculated from the trade date of the purchase to the earlier of May 1, 2018 or the date on which the customer sold the security, if applicable.

10. For customers with affected securities who have transferred their accounts away from LPL, LPL will attempt to contact the customer to determine whether the customer either (1) sold the position after transferring it away from LPL or (2) still holds the position at a broker-dealer other than LPL. If the customer still holds the position, LPL will also need to determine whether it is feasible for the securities to be transferred back to LPL for purposes of LPL's offering to repurchase the securities. If the customer fails to timely provide information necessary for LPL to make a repurchase or damages offer using the formula described in Section III(B)(9) above or if it is not feasible to transfer the securities back to LPL for repurchase, then LPL will make a damages offer to the customer

1 based on a revised formula. The damages shall be calculated by deducting the lowest reasonably
2 identifiable value of the security on the date of transfer from the amount paid and applicable interest.

3 11. LPL shall memorialize each offer in a letter (each, an "Offer Letter"), pursuant to the
4 following terms:

- 5 a. LPL and the Lead States will work to design a template Offer Letter
6 (providing recommended format and the categories of information to
7 be included with every offer). The Lead States will distribute the final
8 template Offer Letter to the Jurisdictions.
- 9 b. If the Commission requires modification of the final template Offer
10 Letter, the Commission must communicate that requirement, or advise
11 LPL when the Commission will communicate the details of that
12 requirement, to counsel for LPL within ten (10) business days of
13 receipt of the final template Offer Letter. LPL shall work in good faith
14 to address any questions or concerns raised by the Commission and to
15 comply with any statutory or regulatory requirement in Arizona related
16 to the form or content of such Offer Letters. Absent contact from the
17 Commission within ten (10) business days, LPL may presume that the
18 Commission has approved the template Offer Letter, inclusive of any
19 waiver or release language, for distribution to offerees in Arizona.
- 20 c. Each Offer Letter shall be delivered to the offeree's last known
21 mailing address as maintained in LPL's records in a manner that
22 enables confirmation of delivery (e.g., certified U.S. Post Mail or
23 Federal Express). For offerees that have elected, in writing, to receive
24 correspondence electronically, Offer Letters may be sent
25 electronically, so long as electronic delivery includes a mechanism to
26 confirm that the Offer Letter was delivered (e.g., request for read
27 receipt).
- 28

- 1 d. Each Offer Letter shall clearly state the terms of the offer, and shall
2 provide in bold underlined font: (1) the steps required to accept the
3 offer, (2) the deadline for acceptance, and (3) the contact information
4 at LPL whereby the offeree can obtain additional information.
- 5 e. LPL may include within its Offer Letters a waiver or release relative to
6 the transactions it is offering to remediate. Notwithstanding any such
7 waiver or release, neither the Historical Trade Review nor the
8 Repurchase Program (defined below) shall operate to extinguish or
9 preclude any individual claim or private right of action based on sales
10 practice violations (*e.g.*, material misrepresentation or omission, or
11 suitability) that is otherwise available to any offeree, except to the
12 extent that such claim or right of action is based primarily on the
13 unregistered, non-exempt status of the security or transaction which
14 LPL is offering to remediate. In any event, the form and content of
15 any such waiver or release shall not be unacceptable to the
16 Commission.

17 12. The Offer Letter shall remain open for a period of sixty (60) days from the date it is
18 sent to the offeree.

- 19 a. Within sixty (60) days of the date that Offer Letters are sent, LPL shall
20 provide the Commission a list of offerees in Arizona for whom Offer
21 Letters were returned as undeliverable so that the Jurisdiction may
22 attempt to locate those offerees.
- 23 i. If the Commission elects to try to locate current addresses for
24 this population of offerees, then it shall inform LPL or its
25 representative. The Commission will then have ninety (90)
26 days to provide LPL with a new address for use in re-sending
27 each Offer Letter previously returned as undeliverable (the
28 "Location Period"). The Commission may determine it

1 necessary to extend the Location Period in which case it will
2 notify LPL as to the minimum period of time necessary to
3 complete its search. The Location Period shall not extend
4 beyond one hundred eighty (180) days.

- 5 ii. If the Commission locates an individual after the Location
6 Period has elapsed, LPL shall accommodate any reasonable
7 request from the Commission to re-send an Offer Letter to a
8 newly-identified mailing address, so long as LPL is still
9 actively engaged in mailing Offer Letters in any Jurisdiction.
- 10 iii. Any Offer Letter that is re-sent will carry with it a revised
11 deadline for acceptance that is sixty (60) days from the date the
12 Offer Letter is re-sent.
- 13 iv. Separate from the efforts undertaken by the Commission to
14 locate a current mailing address for undeliverable Offer
15 Letters, LPL or its representative(s) shall conduct an electronic
16 query (*i.e.*, a public records search via a service such as
17 Thomson Reuters or LexisNexis) for each undeliverable
18 offeree and shall re-send an Offer Letter in a manner not
19 materially different from LPL's initial mailing to offerees for
20 whom it identifies an address that appears to be the offeree's
21 current mailing address. The Commission and LPL shall
22 coordinate to resolve any discrepancies between the address
23 identified by the Commission and the address identified by
24 LPL.
- 25 v. If both the Commission and LPL are unable to locate the
26 address for any individual within the population of offerees
27 addressed in this Section III(B)(12)(a), LPL shall re-send an
28 Offer Letter to all such individuals who come forward to either

1 LPL or the Jurisdiction within six (6) months after completion
2 of the Historical Trade Review and Repurchase Program (as
3 described and defined in Section III(B)(13), below).

4 13. The Historical Trade Review shall be completed, all offers shall be made, and all
5 payments remitted (collectively the "Repurchase Program") in Arizona no later than November 1,
6 2019.

7 14. No later than December 31, 2019, LPL shall prepare and submit to the Commission a
8 report including the following information:

9 a. For each offer made:

- 10 i. The trade date(s) and corresponding product(s) covered by the
11 offer
12 ii. The name and address of the offeree(s);
13 iii. Whether the offer was either accepted, affirmatively rejected,
14 or deemed rejected due to a failure to timely accept;
15 iv. The date(s) and amount(s) remitted for each offer; and
16 v. Any special circumstances relevant to that offer (e.g., if the
17 original customer is now deceased and the payment was
18 remitted to the customer's heirs or estate).

19 b. The total amount paid to all residents of the Jurisdiction in connection
20 with the Repurchase Program; and

21 c. The number of executed and settled purchase orders reviewed in
22 Arizona that were determined by a third-party service provider other
23 than the Independent Reviewer to have complied with state
24 registration requirements, and that were therefore not reviewed by the
25 Independent Reviewer. LPL will identify all such trades upon request
26 by the Commission.

27 15. No later than December 31, 2019, LPL shall require the Independent Reviewer to
28 certify to LPL that the Independent Reviewer's determinations as to which transactions contravened

1 state registration requirements are true, accurate, and based on all available information and a good
2 faith interpretation of applicable law. Prior to the Independent Reviewer's certification, LPL shall
3 direct that any third-party who provided services in furtherance of the Independent Reviewer's
4 determinations provide a written representation to the Independent Reviewer that all services rendered
5 in furtherance of the Historical Trade Review were fully completed in accordance with both the third-
6 party's statement of work and all directives provided to the third-party by the Independent Reviewer.

7 16. No later than December 31, 2019, LPL or its designee(s) shall certify to the
8 Commission that LPL has fully complied in all material respects with the undertakings set forth in
9 Section III(B) of this Order in connection with transactions effected in Arizona, including to the best
10 of LPL's knowledge, the truth, accuracy, and good faith basis of all determinations by the Independent
11 Reviewer and any other third-party service provider as to whether any transaction complied with state
12 registration requirements. LPL shall provide as an exhibit to this certification copies of the
13 Independent Reviewer's certification and any other third-party representations that LPL is relying
14 upon in making this certification to the Commission. In its certification, LPL shall affirm that if an
15 error is subsequently identified within the Historical Trade Review and Repurchase Program (whether
16 a failure to identify a violative transaction or an error in calculating the value of an offer), LPL will
17 retain responsibility for ensuring the error is remediated so that LPL has made all offers anticipated
18 by this Order. The identification of a good-faith error within the Historical Trade Review and
19 Repurchase Program shall not result in a finding by the Commission that LPL is in default of this
20 Order.

21 17. The costs and expenses of the Historical Trade Review and the related Repurchase
22 Program shall be borne exclusively by LPL Financial Holdings Inc. or its direct or indirect
23 subsidiaries, and shall not reduce or otherwise affect the amount of any penalty or fine imposed in this
24 Order.

25 18. At LPL's request, the Lead States for all Jurisdictions where necessary and/or the
26 Commission for its own part may extend, for good cause shown, any of the procedural dates set forth
27 in this Section III(B). If the Lead States extend a date or deadline, the Lead States shall extend all
28 related subsequent deadlines that are dependent on the extended date or deadline by a corresponding

1 amount of time. Any extension granted by the Lead States shall apply to all dates in Arizona pursuant
2 to this Order. If the Commission extends a date or deadline (*see, e.g., supra* Section III(B)(12)(a)(i)),
3 then the Commission shall extend all related subsequent deadlines applicable to the completion of
4 undertakings in Arizona by a corresponding amount of time. Any extension by the Commission shall
5 apply only to Arizona and shall not have any effect on any dates or deadlines related to the Historical
6 Trade Review and Repurchase Program in any other Jurisdiction.

7 C. COMPREHENSIVE REVIEW OF BLUE SKY OPERATIONS, POLICIES, PROCEDURES,
8 AND PRACTICES

9 19. If it has not already done so, no later than the date of this Order, LPL shall commence
10 a comprehensive review of its operations, policies, procedures, and practices relating to compliance
11 with and supervision of blue sky state securities registration requirements in all Jurisdictions, to assess
12 whether the foregoing (i) are adequate to reasonably ensure compliance with applicable state laws,
13 rules, and regulations, (ii) are consistent with industry practice, and (iii) are being implemented fully,
14 properly, and effectively (the "Operational Review") so as to avoid violative transactions like those
15 identified in the Historical Trade Review.

16 20. The Operational Review shall include the following areas:

- 17 a. Compliance and supervisory controls and related policies, procedures
18 and process relating to:
- 19 i. Identification and escalation protocols by supervisory and
20 compliance personnel involving significant matters relating to
21 compliance with state securities laws, rules and regulations;
- 22 ii. Communication and information sharing between departments
23 and business units (e.g., procurement, technology, trading, and
24 retail brokerage) relative to state securities registration
25 requirements and operations processes for ensuring intra- and
26 inter-departmental coordination on matters relating to state
27 securities registration requirements; and,
28

1 iii. Training and education of staff, including associated persons of
2 the broker-dealer whether employees or independent
3 contractors, relative to state securities registration
4 requirements;

5 b. A complete, top-to-bottom review of the onboarding of new securities
6 products for purposes of assessing LPL's ability to comply with all
7 state securities registration requirements, and all operations and
8 procedures in connection with state registration requirements, that
9 apply to the offer and sale of that product;

10 c. A complete top-to-bottom review of vendor service protocols to ensure
11 processes are in place for identification and management of critical
12 services used to ensure compliance with state securities laws. This
13 will include an assessment of the impact of such products and services
14 on LPL's ability to review transactions for Blue Sky compliance; and

15 d. Personnel and staffing relative to those functions that relate to
16 compliance with and supervision of state securities registration
17 requirements. Insofar as LPL has represented that it has undertaken to
18 assess and upgrade its talent as it impacts compliance with state
19 securities registration requirements, including the recruitment of an
20 experienced blue sky professional and expert on state securities
21 registration compliance matters, the Operational Review shall assess
22 the experience, responsibilities, and resources available to all
23 personnel hired or reassigned within LPL in connection with ensuring
24 compliance with state securities registration requirements.

25 21. The Operational Review shall be conducted by an unaffiliated third party that is not
26 unacceptable to the Lead States (the "Consultant"). The Consultant shall not be a person or entity who
27 has been engaged or retained by LPL between January 1, 2012 and July 1, 2017, for the purpose of
28 conducting any review of similar scope and substance.

- 1 a. Upon request, LPL shall provide the Commission with copies of all
2 final contracts related to the engagement of the Consultant and any
3 other third-party service provider involved in the Operational Review
4 and the related remediation. LPL shall promptly respond to any
5 additional requests for information by the Commission relating to such
6 engagement.
- 7 b. LPL shall neither be in nor have an attorney-client relationship with
8 the Consultant, and shall not seek to invoke the attorney-client
9 privilege or any other doctrine or privilege to prevent the Consultant
10 from transmitting any information, reports, or documents as set forth
11 in this Order to the Commission or to LPL's Board of Directors.
- 12 c. LPL shall not have the authority to terminate the Consultant or any
13 third-party service provider engaged in connection with the
14 Operational Review, without prior written approval from the Lead
15 States.

16 22. The Operational Review shall be completed no later than May 1, 2019.

17 23. LPL may request confidential treatment be afforded to any material provided by LPL
18 and/or the Consultant to the Commission.

19 24. No later than July 1, 2019, LPL shall require that the Consultant submit a report to LPL
20 detailing the results and findings of the Operational Review, including a list of all deficiencies
21 identified and recommendations for addressing such deficiencies.

22 25. LPL shall cure all deficiencies identified in the Consultant's report ("Operational
23 Remediation") no later than June 30, 2020.

- 24 a. If LPL declines to adopt or implement any recommendation(s) by the
25 Consultant for addressing deficiencies identified during the
26 Operational Review, LPL shall identify the recommendations not
27 adopted or implemented and explain why they were not adopted or
28 implemented.

1 26. No later than August 31, 2020, LPL or its designee(s) shall certify to the Lead States
2 that LPL has fully complied in all material respects with the undertakings set forth in Section III(C)
3 of this Order.

4 27. The costs and expenses of the Operational Review and Operational Remediation shall
5 be borne exclusively by LPL Financial Holdings Inc. or its direct or indirect subsidiaries, and shall not
6 reduce or otherwise affect the amount of any penalty or fine imposed as part of the Settlement.

7 28. At LPL's request, the Lead States may extend, for good cause shown, any of the
8 procedural dates set forth in this Section III(C). If the Lead States extend a date or deadline, the Lead
9 States shall extend all related subsequent deadlines that are dependent on the extended date or deadline
10 by a corresponding amount of time. Each Jurisdiction shall reflect in their Order that any extension
11 granted by the Lead States shall apply in the Jurisdiction. Any extension granted by the Lead States
12 shall apply to all dates in Arizona pursuant to this Order.

13 D. AUDITS AND INSPECTIONS

14 29. The Commission shall have the right to conduct on-site audits, inspections, or
15 examinations of LPL to ensure full compliance with the undertakings herein. The cost of any such
16 audit, inspection, or examination shall be borne exclusively by LPL Financial Holdings Inc. or its
17 direct or indirect subsidiaries. The Commission will not initiate any such audit, inspection or
18 examination to assess LPL's compliance with the undertakings herein until after LPL has provided the
19 certifications described in Sections III(B)(15), III(B)(16), and III(C)(26) above.

20 E. CONSTRUCTION AND DEFAULT

21 30. This Order is not intended to form the basis for any disqualification from registration
22 as a broker-dealer, investment adviser, or issuer under the laws, rules, and regulations of Arizona, and
23 waives any disqualification from relying upon the securities registration exemptions or safe harbor
24 provisions to which LPL or any of its affiliates may be subject under the laws, rules, and regulations
25 of Arizona.

26 31. Nothing in this Order is intended to form the basis for any disqualification under the
27 laws of any state, the District of Columbia, Puerto Rico, or the U.S. Virgin Islands; under the rules or
28 regulations of any securities or commodities regulator or self-regulatory organizations; or under the

1 federal securities laws, including but not limited to, Section 3(a)(39) of the Securities Exchange Act
2 of 1934 and Regulation A and Rules 504 and 506 of Regulation D under the Securities Act of 1933.
3 Furthermore, nothing in this Order is intended to form the basis for disqualification under the FINRA
4 rules prohibiting continuance in membership or disqualification under other SRO rules prohibiting
5 continuance in membership. This Order is not intended to be a final order based upon violations of
6 any Arizona statute, rule, or regulation that prohibits fraudulent, manipulative or deceptive conduct.

7 32. Except in an action by the Commission to enforce the obligations in this Order, this
8 Order is not intended to be deemed or used as (a) an admission of, or evidence of, the validity of any
9 alleged wrongdoing, liability, or lack of any wrongdoing or liability; or (b) an admission of, or
10 evidence of, any such alleged fault or omission of LPL in any civil, criminal, arbitration, or
11 administrative proceeding in any court, administrative agency, or other tribunal.

12 33. If payment is not made by LPL or if LPL defaults in any of its obligations set forth in
13 this Order, the Commission may bring further legal proceedings.

14 34. This Order and any dispute related thereto shall be construed and enforced in
15 accordance with, and governed by, the laws of the State of Arizona without regard to any choice of
16 law principles.

17 35. This Order is not intended to state or imply willful, reckless, or fraudulent conduct by
18 LPL, or its affiliates, directors, officers, employees, associated persons, or agents.

19 36. LPL, through its execution of this Order, voluntarily waives the right to a hearing on
20 this matter and to judicial review or appeal of this Order.

21 37. LPL enters into this Order voluntarily and represents that no threats, offers, promises,
22 or inducements of any kind have been made by the Commission or any member, officer, employee,
23 agent, or representative of the Commission to induce LPL to enter into this Consent Order.

24 38. This Order shall be binding upon LPL and its successors and assigns, as well as to
25 successors and assigns of relevant affiliates, with respect to all conduct subject to the provisions above
26 and all future obligations, responsibilities, undertakings, commitments, limitations, restrictions,
27 events, and conditions.

28 IT IS FURTHER ORDERED that this Order shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION

Pro. Forese
CHAIRMAN FORESE

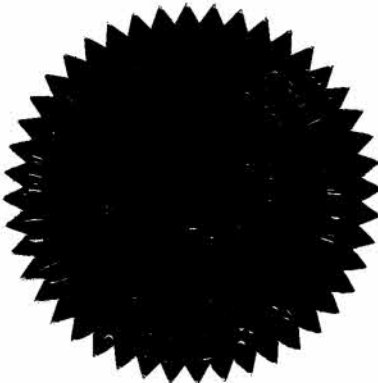
[Signature]
COMMISSIONER DUNN

Leh M. Tobin
COMMISSIONER TOBIN

[Signature]
COMMISSIONER OLSON

RECUSED

COMMISSIONER BURNS



IN WITNESS WHEREOF, I, MATTHEW J. NEUBERT, Interim Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 11 day of January, 2018.

[Signature]
MATTHEW J. NEUBERT
INTERIM EXECUTIVE DIRECTOR

DISSENT

DISSENT

This document is available in alternative formats by contacting Kacie Cannon, ADA Coordinator, voice phone number (602) 542-3931, e-mail kcannon@azcc.gov.

(PTH)

1 **CONSENT TO ENTRY OF ADMINISTRATIVE ORDER BY LPL**

2 LPL hereby acknowledges that it has been served with a copy of this Administrative Order,
3 has read the foregoing Order, is aware of its right to a hearing and appeal in this matter, and has waived
4 the same.

5 LPL admits the jurisdiction of the Commission, neither admits nor denies the Findings of Fact
6 and Conclusions of Law contained in this Order; and consents to entry of this Order by the
7 Commission as settlement of the issues contained in this Order.

8 LPL agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with regard
9 to any state, federal or local tax for any administrative monetary penalty that LPL shall pay pursuant
10 to this Order. LPL understands and acknowledges that these provisions are not intended to imply that
11 the Commission would agree that any other amounts LPL shall pay pursuant to this Order may be
12 reimbursed or indemnified (whether pursuant to an insurance policy or otherwise) under applicable
13 law or may be the basis for any tax deduction or tax credit with regard to any state, federal or local
14 tax.

15 LPL states that no promise of any kind or nature whatsoever was made to it to induce it to enter
16 into this Order and that it has entered into this Order voluntarily.

17 Olivia Manico represents that [he/she] is SVP, Counsel of LPL and that, as
18 such, has been authorized by LPL to enter into this Order for and on behalf of LPL.

19 Dated this 30 day of Nov, 2018.

20 LPL

21 By: Olivia Manico

22 Title: SVP, Assoc. General Counsel

23 SUBSCRIBED AND SWORN TO before me this 30th day of November, 2018.

24 Ronda F. Hope
25 Notary Public

26 My Commission expires: 10/26/2026

27
28 **RONDA F. HOPE**
Notary Public, State of South Carolina
My Commission Expires 10/26/2026

1 SERVICE LIST FOR: LPL FINANCIAL LLC

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3 Sidley Austin, LLP
4 1501 K Street, N.W.
5 Washington, D.C. 20005
6 T: (202) 736-8471
7 E: nsullivan@sidley.com
8 *Legal Counsel for Respondent LPL Financial, LLC*

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